Twentieth Annual Report

1989-1990

loto-québec

Loto-Québec set for itself four fundamental objectives based on the following guidelines:

Performance

To maximize the Société's net income and ensure the highest standards of customer services.

Integrity and credibility

To ensure the public credibility and integrity regarding the games and the management of the Société's affairs.

loto-québec

Expansion

To develop all the games considered appropriate.

Expertise and competence

To attain, through its expertise, a position of leadership in its field.

Twentieth Annual Report

1989-1990

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HIGHLIGHTS

On the Financial Balance Sheet

(in thousands of dollars)	1989-1990	1988-1989	Increase %
Sales	**1,214,543**	1,158,170	4.9
Prizes	**570,125**	542,695	5.1
Net income before special contributions and commissions	**453,025**	439,971	3.0
Discount to retailers	**62,828**	60,214	4.3
Wages, salaries and social benefits paid to personnel	**30,649**	30,789	(0.5)

On the social balance sheet

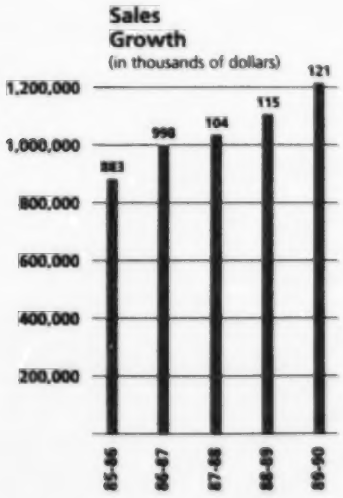
• More than $600,000.00 awarded in sponsorship of popular events, foot-races, cycling tours or festivals which promote Québec products and resources.

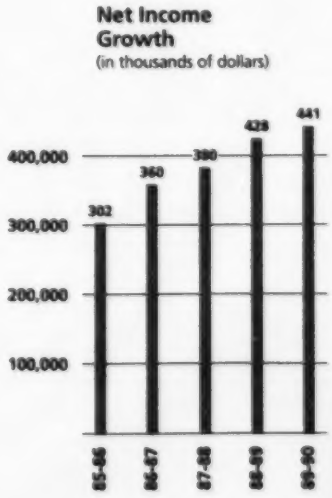
• Approximately $100,000.00 awarded in study grants or university-level research related to the field of games.

• More than $125,0 00.00 for the acquisition of works of art by Québec artists.

• More than $40,000.00 spent in promoting and exhibiting québecois works of art; one such significant endeavour was the Biennale du dessin, de l'estampe et du papier, in Alma.

• Approximately $30,000.00 committed to the Loto-Québec Collection of original engravings, to grants for prize-winners and to the publication of their works in art-book form.





On the balance sheet of quality of life and professional development

• The program of compressed or variable work-schedules, implemented in collaboration with Le Syndicat des travailleurs et travailleuses de Loto-Québec, is now permanently in place.

• The program of access to equality of employment is being continued.

• The program of assistance and external consultation for employees or their immediate family members is also being continued.

• The policy of payment of dues owed by employees to professional corporations or associations has been maintained.

• The programs of financial assistance and that of professional development of employees have been continued.

• The program of retirement counselling is being continued.

• In collaboration with the Office des services de garde à l'enfance, non-profit day-care facilities were set up during the past fiscal year.

• The program of enhancing the physical surroundings by means of works of art from the Loto-Québec Collection is being continued.

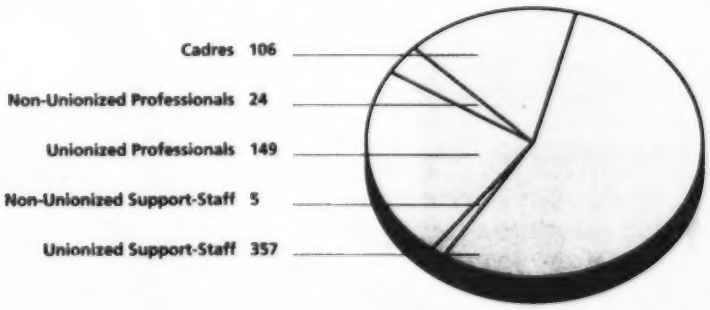
• The financial assistance program for employee participation in sporting activities, socio-cultural endeavours or physical fitness programs, has been expanded.

• A new program, aimed at recognizing employees' contributions to the Société, at the time of retirement, has been implemented.

On the balance sheet of human resources

The expertise and dynamism of our personnel is at the very foundation of the Société's continuing growth. As at March 31, Loto-Québec's active personnel numbered 641 employees. The degree of seniority attained by its personnel, as Loto-Québec celebrates its twentieth year of existence, attests clearly to the attachment formed by the employees for the Société.

Personnel

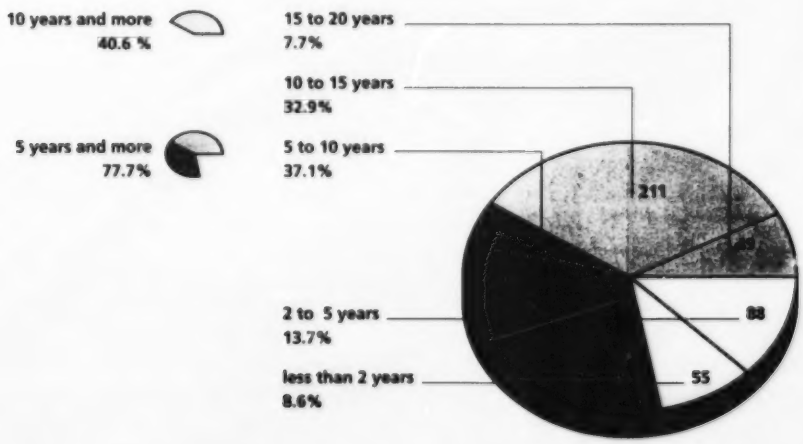


Distribution of personnel (%)

	Non-Unionized Personnel	Unionized Profes-sionnals	Unionized Support	Male Staff	Female Staff
General Management and Vice-Presidency, Corporate Affairs	26.7	20.0	53.3	12.5	87.5
Vice-Presidency, Operations					
• administration	13.6	15.2	71.2	51.0	49.0
• projects	14.3	71.4	14.3	55.0	45.0
• marketing	20.0	23.3	56.7	35.0	65.0
• sales	17.9	15.6	66.5	57.0	43.0
• systems/ management	7.6	39.2	53.2	57.5	42.5
• systems/games	13.8	30.8	55.4	60.0	40.0
Vice-Presidency, Control & Finance	13.6	38.7	47.7	47.0	53.0
Vice-Presidency, Human Resources*	68.9	2.2	28.9	30.0	70.0
Research & Development Division	23.8	57.2	19.0	71.0	29.0
Internal Auditing	83.3	-	16.7	58.0	42.0
Total (in numbers)	135	149	357	309	332
Percentage (%)	21.1	23.2	55.7	48.2	51.8

* including personnel at the general disposal of the Société

Personnel Seniority



PRESIDENT'S REPORT

20 years of growth... 6,500,000 winners, the entire population of Quebec!

December 23, 1989, marked the 20th anniversary of the adoption by the Québec National Assembly of Bill 86 creating the Société d'exploitation des loteries et courses du Québec. On January 1, 1970, Loto-Québec officially came into being.

As of March 31, 1990, Loto-Québec, via the various government departments, will have returned more than $3.4 billion to the Québec population and nearly $4.5 billion to hundreds of thousands of winners, its total sales volume having surpassed $9.7 billion.

This year marks Loto-Québec's 20th consecutive year of growth. The past fiscal year has enabled us to reach new heights, particularly thanks to continual, concerted efforts of our personnel at all levels of the company. Since the majority of our products have reached their peak, the maintenance of a profit growth rate superior to the inflation rate requires more and more effort.

It is, therefore, with legitimate pride that we are able to present this very positive financial report, emphasizing an increase in the volume of business, in the net income and in the dividend remitted to our shareholder. Our sales, which reached $1,214 million, represent an increase of 4.9% over those of the preceding fiscal year, while our net income rose to $441,1 million, an increase of 2.9%.

As was emphasized in our previous report, our growth rate depends on the quality, diversity and periodic renewal of our existing products as well as the creation of new games. It is becoming increasingly obvious that the logical market potential for existing lotteries has, for all pratical purposes, been exploited. Our new products are directly responsible for growth but, at the same time, are increasingly affecting the sale of existing products

Last September, we launched Banco, a keno-type game, which enabled us to broaden the range of games which are distributed via computer terminals. The performance of Banco far exceeded our most optimistic forecasts and accounted for all of our sales growth during the year. It is another example of the fact that Loto-Québec must constantly be developing new games in order to extend its growth in sales and profit. We also hope to broaden our clientele and, to that end, we conducted a small test market during the past hockey season of a new sports betting game on hockey matches.

During the past fiscal year, Loto-Québec replaced its oldest computer terminals, most of which had been in operation since 1979. The new terminals are more efficient and contain more modern technology as do the new computers which are currently being tested in our new Data Centre. The new central computer system should permit increasing our on-line gaming capacity from 9,000 to 20,000 transactions per minute. The additional capacity will enable our on-line games to continue to grow and will also permit launching new computerized products and services in the Québec market.

As we strive to increase the level of service to the consumer, our December instant lottery «Cadeau-Surprise» offered prize winners the opportunity to claim merchandise prizes on a regional basis for the first time. That pilot project is one step toward a further decentralization of prize payments which is planned during the coming years.

There is a general trend in the lottery field from passive, traditional lotteries toward the more active ones. It is therefore quite normal that the traditional lotteries continue to decline, whereas numbers games and instant lotteries are on the rise. It is important, from a strategic point of view, to optimize profit over the long term by managing the transition from passive to active lotteries. We feel that Loto-Québec has followed the optimal strategy over the years since our traditional lotteries are still generating considerable profits whereas this segment of the lottery market has virtually disappeared throughout the United States.

The maintenance of traditional lotteries also permits a greater range of choice for Québec consumers and helps us finance our necessary investments in modern technology to ensure future growth. This year, in spite of their decline, conventional lotteries generated revenues of $166 million.

Our very active Board of Directors met on nine occasions, while the Audit Committee helf five sessions. Loto-Québec welcomed to the Board Mr. Roger Chartrand, whose expertise, particularly in the area of security, instantly became an important asset. He replaces Mr. Bernard Grégoire, whom we heartily thank for his valuable contribution to Loto-Québec.

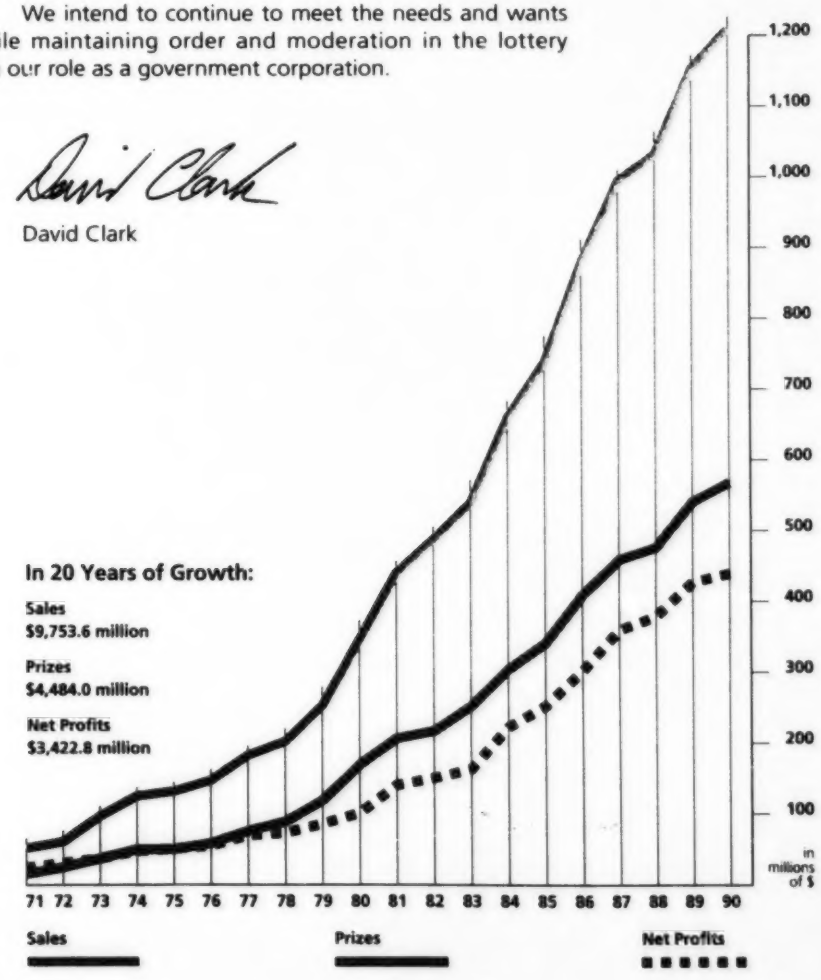
During the past year, our Vice-President of Corporate Affairs, Ms. Marguerite Bourgeois, has assume the additional duties of Chairperson of the Board of the Interprovincial Lottery Corporation. Ms. Bourgeois has been a very dynamic Chairperson of the I.L.C. and has been responsible for revising the policies and structure of that organization to the benefit of all the provinces of Canada.

Loto-Québec has continued to be very active on the international level. We have constant contacts with other state-run lotteries thanks to my position as Secretary General of the International Association of State Lotteries (A.I.L.E.). We are currently exploring several areas of international cooperation and recently played a useful role in the organization to the AILE Congress in Sevilla, Spain. For the past several years, Loto-Québec has collaborated with its counterparts from other countries. Those continued relations were partially responsible for the fact that several Québec suppliers to the lottery industry were able to obtain lottery contracts overseas.

We have reached a new plateau in sales and profits and we look forward to the next fiscal year with optimism. The ongoing modernization of our systems, research projects which we are conducting with other Québec companies in the areas of computer technology and electronic distribution, and a management strategy based on a finely tuned marketing approach should permit us to pursue our current growth rate. We hope to realize net profits of $470 million during the coming fiscal year and that would represent an annual increase of 6.5%.

We intend to continue to meet the needs and wants of our customers while maintaining order and moderation in the lottery market, consistent with our role as a government corporation.

David Clark



VICE-PRESIDENCY
HUMAN RESOURCES

As mandated, the Vice-Presidency for Human Resources concentrated its efforts in the concordant development of both the Organization and the Individual.

The implementation of a new program of human resources development, incorporating a plan for manpower and for assistance and career management, enables us to coordinate the future needs of the Société with the professional aspirations of its employees; and while this program serves to promote and facilitate the professional development of our personnel, it is also designed to set quantitative objectives for equal access to employment.

A study bearing on internal communications, embracing all categories of employment, has yielded a profile of the situation as well as a definition of the desired, and desirable, course which would best promote the distribution of corporate information and improve management and inter-Divisional communications.

A new, computerized information management system for human resources has been installed. Pay-roll is carried out very efficiently, ensuring the strict application and control of social concepts and benefits.

Several preliminary consultation and negotiation sessions were held in an effort to renew the collective agreement between the Société and the Syndicat des travailleurs et travailleuses de Loto-Québec. The groundwork for negotiations between the Société and the Syndicat de professionnelles et professionnels du Gouvernement du Québec, Loto-Québec local, was continued.

To increase the security of the premises and guarantee the protection of Loto-Québec's assets and customers, a new, ultra-modern, computerized access system was installed at the Head Office and other metropolitan offices.

A plan for the rationalization and reduction of the managerial rate of growth was carried to fruition, thus combining efficiency with the pursuit of corporate objectives. This past fiscal year has seen a reduction in the number of managerial strata, with the consequent modifications to the distribution of human resources.

A day-care facility for employees' children, three months to six years of age, was opened during the past fiscal year. A non-profit organization, this day-care centre is administered by a Board composed of parents.

VICE-PRESIDENCY OPERATIONS

The restructuring of the Société's personnel-force has resulted in the creation of a main Vice-Presidency for Operations, the repatriation of the Systems group under the Vice-Presidency for Operations and the creation of a group of administrative units. At the same time, a large portion of the Finance group was transferred under the Vice-Presidency for Control & Finance.

Outlined on the following pages are the pertinent highlights of each division. Particular attention, however, should be brought to the following:

- The global objectives for sales were attained thanks, in large part, to the immediate and resounding success of Banco.
- New games and services to consumers have been developed: Banco, Extra and Mise-Éclair options for several draws of the 6/49 and the Sélect 42.
- The active participation of banking institutions has significantly contributed to the marketing of our top-of-the-line product.
- A very trim management of our bank of terminals has actively contributed to the financial success.
- The installation of a new games-environment was continued, with operations scheduled to move to the new Data Centre on March 19,1990.
- The close collaboration among the various Canadian regional Lotteries within the Interprovincial Lottery Corporation has enable Loto-Québec to develop its activities.

Administration

This Division was created at the half-way mark of the fiscal year, as a direct result of the restructuring process. Comprised of four administrative units: Network Financial Control, Supplies, General Services and the Lotomatique, this Division, amid a flurry of activities undertaken even before its creation, has maintained and intensified its participation in several corporate dossiers, such as the negotiations with the STTLQ, the ENJEU Project (the new Data Centre), as well as the EXTRA Project.

The Service of Network Financial Control has proceeded to a review of its controls for operations, procedures and methods.

In an effort to economize on acquisitions and ensure better services for its internal clientèle, the Supply Services Unit was equipped with a computerised system for information management.

The Supply Service processed 2,580 orders for goods and services, with a total value of $52 Million. The content of orders superior to $10,000.00 is as follows: Québécois content: 77%; Canadian content: 7%; foreign content: 16%.

The General Services Unit proceeded to a relocation of several administrative units, not only at the Head Office but also in various operational centres and undertook the installation of customer service bays and counters for payment of prizes to winners, at the Société's Head Office.

As a follow-up to the Lotomatique repatriation, carried out during the preceding fiscal year, this group concentrated its activities on the development of its reliable and prompt services to some 55,000 subscribers.

Marketing

Year after year, the attainment of objectives and the increase in the Société's volume of business require an increasingly bolder refinement, not only in regards to product development but also to product marketing. The margin for maneuvering is becoming more and more restricted; consumer services must be of unmatched quality and the Société must make its presence in the midst of the population at large even more strongly felt.

The principal Marketing Division now consists of six sectors of activities: product development, product management, draws, sponsorships, public information and consumer services. This last sector groups under its aegis services of information, public reception and payment of prizes, a task which was formerly handled, in part, by the Finance Division.

20 years of growth... With innovative marketing, alert to the expectations of its clientele

Amid the various highlights, the following are particularly noteworthy:

• The resoundingly successful launching of Banco, which exceeded all forecasts: a Keno-type game, Banco allows the consumer to choose both the amount and type of wager, from 2 to 10 numbers on a grid of 70; 20 winning numbers are then announced at each of the three weekly draws staged by Loto-Québec.

• An agreement for the printing of lottery tickets with the firm of Dittler LPS Inc. and the opening of its Québec manufacturing facilities.

• The awarding of agency of media control contract to the firm of BCP Stratégie Créativité Ltée, for a period of three years.

• The signing of a two-year agreement with TVA for telecasts of Loto-Québec draws along its network.

• A Grand Prize for humour awarded by the Mondial de la publicité francophone to the Société for one of its TV commercials.

Products

Semi-active lotteries constitute two-thirds of the Société's volume of business. In spite of having reached a certain maturity, **Lotto 6/49** is still at the head of the pack, its jackpot being won at almost every draw.

Banco, launched on September 15, 1989, has turned out to be the highlight of the year. Weekly sales of more than $2 Million are twice the predicted forecasts. Passive lotteries and the **Quotidienne** seem to have suffered somewhat from its popularity. The latter has already shown a slight decrease, which could become more marked.

Select 42 experienced an increase of 4.6% over the previous fiscal year, with its weekly sales going from $1.5 Million to $1.8 Million.

Despite an increase of 8.8%, sales for **Instant** lotteries show a certain stagnation. Roue de fortune -- sharing a televised draw with an instant lottery -- remains the favourite with consumers.

The passive lotteries are experiencing a marked decline: 9.7% for the **Mini**; 13.2% for **Inter Plus**; and 11.2% for **The Provincial**. The **Top-of-the-Line** products have fallen off by 22.5%: the Christmas edition was successful but the Spring edition turned out to be of substandard performance. Several studies and research projects are now in progress throughout Québec and Canada and, when completed, should enable us to effect the appropriate modifications to this line of products.

The following chart outlines the performance of each product and its evolution. Free tickets have been entered on the books according to established standards.

Sales by Product

(in thousands of dollars)	**1989-1990**	1988-1989	Evolution
Passive Lotteries			
Mini-Loto	**42,458**	47,003	(9.7)
Inter Plus	**41,329**	47,590	(13.2)
Provincial	**41,365**	46,608	(11.2)
Top-of-the-Line (and Super-Loto in 88-89)	**40,921**	52,813	(22.5)
Sub Total	**166,073**	194,014	(14.4)
Semi-Active Lotteries			
Sélect 42	**96,897**	92,593	4.6
La Quotidienne	**20,911**	21,447	(2.5)
Banco *	**63,653**	-	100.0
Lotto 6/49	**620,168**	623,141	(0.5)
Sub Total	**801,629**	737,181	8.7
Instant Lotteries	**246,841**	226,975	8.8
TOTAL	**1,214,543**	1,158,170	4.9

Prizes Alloted

(in thousands of dollars)	1989-1990	1988-1989
Mini-Loto	**18,681**	20,681
Inter Plus	**20,646**	23,784
Provincial	**20,817**	22,996
Top-of-the-Line (and Super-Loto in 88-89)	**20,214**	26,915
Sélect 42	**44,825**	45,299
La Quotidienne	**9,393**	8,756
Banco *	**32,834**	-
Lotto 6/49	**280,695**	281,945
Instant Lotteries	**122,020**	112,319
TOTAL	**570,125**	542,695

*Banco: launched on September 15, 1989.

Sales

The sustained involvement of our entire personnel has enabled us to attain, and surpass, our sales objective in a relatively difficult market.

The total number of retailers has remained stable, symptomatic of market saturation. The bank of terminals has increased from 4,347 units to 4,672. The program for increasing the number of terminal-equipped points of sale will continue as part of a strategy essential for the successful launching of new, computerized products.

An intensive meetings program involving retailers from every region of Québec, prior to the launching of Banco, was unquestionably responsible for a good measure of the product's success.

A similar program, mobilizing the entire management personnel, was implemented in preparation for the launching of Extra, a launching which was to coincide with the incoming fiscal year.

Distribution of Retailers According to Category of Business

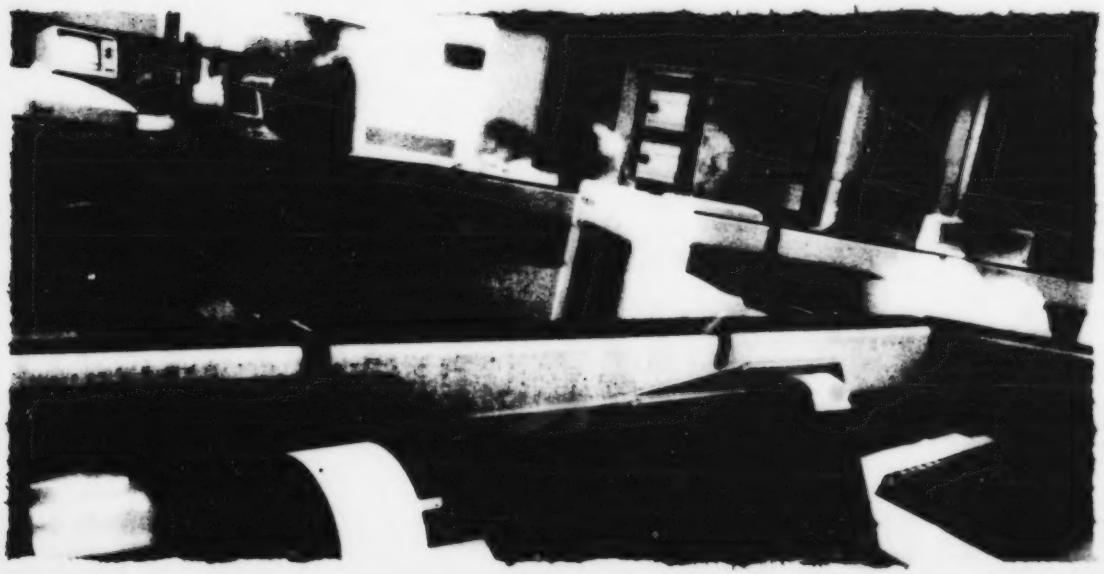
	Number	%
Tobacco & Convenience Stores	5,615	43.6
Food Stores	3,301	25.6
Financial Institutions	1,465	11.4
Other Service Outlets	1,042	8.0
Pharmacies	591	4.6
Travelling Sales-Persons	348	2.7
Other Commercial Outlets	346	2.7
Kiosks	177	1.4
TOTAL	12,885	100

Distribution of Retailers According to Region

	Retailers		Terminals	
	Number	%	Number	%
Laval	1,515	11.8	600	39.6
Montréal West	1,734	13.5	748	43.1
Québec	2,224	17.3	676	30.4
Trois-Rivières	957	7.4	293	30.6
Sherbrooke	1,199	9.3	359	29.9
Chicoutimi	639	5.0	192	30.1
Rimouski	648	5.0	158	24.4
Montréal East	1,513	11.7	758	50.1
Montréal South	1,522	11.8	626	41.1
Hull	934	7.2	262	28.1
TOTAL	12,885	100	4,672	36.3

Systems, games and projects

Modifications carried out to the systems, the relocation to the "Pierre-de-Cubertin" main data processing centre and the installation of the Tandem computers, in March of this fiscal year, have constituted the priorities of this Division and have, consequently, monopolized the efforts of all its staff members. The conversion of the current games-system is now rendered possible.



20 years of growth... at the fore-front of a technology which guarantees reliability and integrity

This Division also collaborated in the development and launching of two new computerized products: Banco and Extra. Mise-éclair options for multiple draws are now being offered to consumers, while a project for the computerized validation of passive lotteries was initiated.

More than 60% of the terminal-bank now consists of new-generation terminals; all the remaining older units should be replaced within the next fiscal year. Network operating time, in relation to sales time, was maintained at 99.91%, while breakdowns were limited to eight. Some 39,100 service calls were handled and resolved, on a network of 4,627 terminals.

Systems, management

In the area of development of applications, the principal contributions of this Division included the implementation of a new payroll and human resources management system, the repatriation of the Lotomatique system, the decentralization of the system for payments from the Cadeau-surprise Lottery in regional offices, the restoration of a healthy financial environment and the installation of a supply system on a local area network.

With a hand in the development of every new product, this Division also participated in the relocation of the games-systems to the new data-processing centre.

In the area of office automation, a plan was established to identify projects of recovery and development. Some projects, such as the installation of local area networks, the adaptation of the graphic concepts unit to an automated office environment and the implementation of an inventory control system for equipment and software, have already been brought to fruition.

Lastly, the operational software has been up-graded and an alternate plan for management applications has been drawn up.

VICE-PRESIDENCY
CONTROL AND FINANCE

As a result of the organizational restructuring, a Vice-Presidency was created joining the Corporate Control Division with that of Finance, including Treasury, Accounting, Budgets and Accounts Payable.

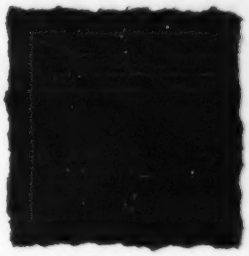
This Vice-Presidency is responsible for ensuring a sound management of the Société's financial resources and establishing standards in matters pertaining to supplies, quality-control, computer security and the systematization of work.

The operations of the computer security and quality control Division were specifically directed towards the security and quality standards for new games and management systems.

The Treasury Department found the Société in a loan position during most of the fiscal year. The extensive acquisitions, totalling about $31 million, and mainly related to computers, explains this relatively unusual situation for Loto-Québec.

The Control Department was able to define the required controls for new games and also undertook a review of the systems currently in place.

PRINCIPAL DIVISION
RESEARCH & DEVELOPMENT



For the Department of New Distribution Methods, the year was highlighted by the signing of an agreement between Loto-Québec and Videotron, the leading cablevision company in Québec. This agreement, calling for Cable distribution of the Société's products and services, has already prompted the Société to produce a lottery information program and to offer this service [Loto-Mag] to Videotron subscribers equipped with the Videoway System. At the same time, tests were conducted on twelve amusement games.

Feasibility studies regarding direct sales to the home via audiotex or videotex have been completed, and new ones initiated. Tests were also carried out on automatic ticket dispensers and instant lottery vending machines. The Division continued to develop its projects for new concepts in video lottery games, taking into account the new computer technologies available.

The Department of New Games produced a document outlining current trends in the sectors of slot machines and casino-type games; studies were also conducted regarding games agencies and the elaboration of a portfolio of new games.

The program of bursaries and grants for research in the field of games of chance has been extended for a fifth year. The Société also continued to participate in the Shad Valley Program, aimed at promoting the professional careers of young and gifted Quebecers in High School and CEGEP I.

On a trial basis, a hockey-related game was offered to consumers via a sales point located at the Société's Head Office. Well-received, this concept could serve to accelerate the development of other sports-related programs, thereby offering the Québec consumer a whole new range of products.

20 years of growth... in constant search of new services for a replenished clientèle

VICE-PRESIDENCY
CORPORATE AFFAIRS

Planning

As part of the administrative restructuring, the Planning Department was combined with that of Information Management to form a single Planning Division. Its mandate is to render support for the planning process, promote the decisions taken by the Société and ensure the organization, accessibility and conservation of management information.

In this way, management systems have been enhanced by the addition of data pertinent to such products as Lotomatique, Banco and Extra. A new central depository for semi-active dossiers was opened; it offers an increased storage capacity under optimum conditions for document preservation. A schedule specifying the conservation deadlines for these documents has been approved by The National Archives of Québec.

The efforts of the Planning Division were directed towards impact-studies of the goods and services tax (GST) on the Société and its administrative implications. The Division also continued its research into the development of corporate management indicators, supported by a comparative analysis of other North-American Lotteries. The Planning Division also prepared and distributed a prospectus charting out the Société's options for the next three years.

Legal Services

The Legal Services Department directed its efforts to the contractual follow-up of the Enjeu Project. A contract pertaining to the production and telecast of amusement games and a lottery information service via the Videoway Cable System was concluded between the Société and the Videotron Group; included in the contract are licensing agreements for the conversion and broadcast of these games.

A handbook of legal opinions related to the field of games and wagers was prepared by the Department. It also conducted research into the various types of games throughout the world and collaborated on an analysis of the implications of the Federal tax on goods and services (GST). At a Lawyers' Symposium, during the Convention of the North American Association of State and Provincial Lotteries, the department presented, as a basis for discussion, a study on extra-territorial sales. The Legal Department also represented the Société on the Standardization Committee of the Canadian Telematique Forum.

During recent litigation proceedings before the Access to Information Commission, the Legal Services Department successfully defended the Société's position vis-à-vis the confidential nature of its list of retailers equipped with terminals.

Public Affairs

In its mandate to enhance the Société's prestige at the national and international levels and intensify , even more, its active involvement in the social life of Québec, the Public Affairs Directorate continued to play a role of the first magnitude in the cultivation of Loto-Québec's image.

At the international level, the Directorate continued its active managerial role within the Secretariat of the International Association of State Lotteries (A.I.L.E.), whose Head Office is situated at Loto-Québec. Among its more active dossiers are included the recruiting of new members, publishing a more comprehensive Directory, sharing in the preparatory arrangements for several international lottery conventions and welcoming numerous foreign delegations to Loto-Québec.

At the national level, and in close concert with Museums and other cultural centres throughout Québec, the Public Affairs Directorate continued to organize exhibitions of works from the Société's Art Collections. In further collaboration with this same arts network, it instituted a sponsorship program of Exhibit-Sales, as an encouragement to artists from all regions of Québec. The Directorate, on behalf of the Human Resources Division, also coordinated the initial stages of the program for conferring recognition on retiring employees.

The Director of Public Affairs was called upon to present numerous conferences spotlighting the Société's involvement in the Arts.

Through the direct initiatives of Loto-Québec's Public Affairs Directorate, the Association of Corporate Art Collections was created on February 15. This new association, whose principal objective is to promote the arts in Québec, already numbers some 20 member-corporations. .

DIRECTORATE OF INTERNAL AUDITING

In its support capacity for general management and under the mandate of the Audit Committee, the Directorate of Internal Auditing continued, this past year, its internal audit controls with emphasis placed on the security, integrity and quality of the systems in place, as well as of those under development, areas of prime concern to the Société. The activities of this Directorate greatly contributed to the improvement of the Société's management systems.

Lotomatique and Kiosks

Loto-Québec continued its policy of entrusting to non-profit organizations and handicapped persons the exclusive rights to operate kiosks and to sell lottery subscriptions. Moreover, the Société undertakes to defray part of the rental costs incurred by kiosks in shopping malls.

In the course of the past decade, the number of accredited organizations has risen from 89 to 581, thus attesting to the interest shown by non-profit organizations for this means of financing their community activities and charitable works throughout Québec.

20 years of growth... with a sustained involvement in the network of non-profit organizations, to the benefit of Québecers

Sponsorship Programs

Reflecting popular trends in this area, the Sponsorship Program included 6 foot-races in its calendar of events and increased the number of sponsored family cycling tours from 8 to 11. The Société actively collaborated in the finale of the Québec Games, held in Saint-Jean-sur-Richelieu, and lent its support to 13 open-air, mass activities and 33 folk festivals, reaching some 450,000 participants and spectators.

The Société's Sponsorship Program is a direct reflection of its policy of participating in family and popular activities through financial and technical assistance.

Loto-Québec Art Collections

This year again, the Société intensified its involvement in the arts of Québec.

Its Collection of original prints, inaugurated in 1978 and already enjoying a national and international reputation, has seen increased exposure through several exhibitions, most notably at the Acadian Village of Caraquet, in New-Brunswick. At the same time, a set of art-books, depicting the collection, was making its way through France, as part of an exhibition tour.

Since 1985, the Société has also maintained a program for the acquisition of Québécois works of art, with some $135,000.00 budgeted for this item in 1989-1990. Works from the general Collection have been exhibited in seven regional museums; the Collection also sponsored four exhibit-sales intended to support Québec artists and stimulate regional markets, its purchasing committees touring the province.

Last, but not least, works from the Collection also serve to enhance the working environment of the Société's personnel.

DIRECTORS' REPORT

The Board of Directors is responsible for the consolidated financial statements to the Shareholder. The responsibility for preparing them is delegated to General Management, while the Auditing Committee sees to revisions.

Management maintains a system of internal controls in order to present reliable financial statements. The Internal Auditing Service constantly oversees the smooth functioning of the system.

The consolidated financial statements are prepared according to generally accepted accounting principles which, in certain cases call for judgments on the part of Management.

By law, the Auditor-General of Québec is appointed as the auditor of the books and accounts of the Société. The Auditing Committee and the Auditor-General meet with Management to discuss questions pertaining to auditing and to consolidated financial statements. The President Director-General is ex-officio member of the Auditing Committee. The other members are not connected with the Société, except as administrators.

Upon recommendation of the Auditing Committee, the Board of Directors has approved the consolidated financial statements of the Société for the fiscal year ended at March 31, 1990.

David Clark
Francine Harel Giasson

AUDITOR'S REPORT

I have examined the consolidated balance sheet of Loto-Québec as at March 31, 1990, the consolidated statement of earnings, the consolidated statement of retained earnings and the consolidated statement of changes in liquidities for the year ended at that date. My examination was carried out according to generally accepted accounting standards and, accordingly, included such tests and other procedures as I considered necessary under the circumstances.

In my opinion, these consolidated financial statements present fairly the financial position of Loto-Québec as at March 31, 1990, the results of its operations and the changes in its financial position for the year ended at that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Rhéal Chatelain, f.c.a.
Auditor-General of Québec
Québec, May 22, 1990

CONSOLIDATED BALANCE SHEET

As at March 31, 1990

Assets (in thousands of dollars)	**1990**	1989
Current		
Cash	**525**	910
Term deposits	**9,500**	57,617
Receivables (Note 6)	**17,972**	14,823
Prepaid expenses	**5,956**	9,198
	33,953	82,548
Fixed assets (Note 7)	**67,895**	44,936
	101,848	127,484

Liabilities (in thousands of dollars)	**1990**	1989
Short term		
Prizes payable	**8,291**	5,669
Dividend to be paid	**36,000**	40,500
Accounts payable and accrued liabilities (Note 8)	**33,505**	16,480
Unclaimed prizes (Note 9)	**1,107**	2,090
Deferred income – Lottery tickets	**14,947**	22,842
	93,850	87,581
Liabilities resulting from capital leases (Note 10)	**—**	36
	93,850	87,617
Shareholder's equity		
Capital shares authorized, issued and paid : 1,700 shares with a par value of $100.00 each	**170**	170
Retained earnings	**7,828**	39,697
	7,998	39,867
	101,848	127,484

Contingencies (Note 11)

On behalf of the Board of Directors
David Clark
Francine Harel Giasson

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

For the year ended March 31, 1990

(in thousands of dollars)	1990	1989
Balance at beginning of year	**39,697**	11,026
Net income	**441,131**	428,671
Dividend	**(473,000)**	(400,000)
Balance at end of year	**7,828**	39,697

CONSOLIDATED STATEMENT OF EARNINGS

For the year ended March 31, 1990

(in thousands of dollars)	1990	1989
Sales – Lottery tickets	**1,214,543**	1,158,170
Cost of sales		
Prizes paid	**570,125**	542,695
Discounts to retailers	**62,828**	60,214
Printing of tickets	**25,234**	21,749
	658,187	624,658
Gross income	**556,356**	533,512
Operating expenses		
Advertising and communications	**24,881**	22,228
Distribution and sales	**18,889**	20,463
Data processing	**28,275**	27,461
Administration	**21,169**	18,274
Research and development	**1,515**	1,880
Depreciation of fixed assets	**8,695**	7,372
Interest – net (Note 3)	**(93)**	(4,137)
	103,331	93,541
Income before the following items	**453,025**	439,971
Payments to the Government of Canada further to its withdrawal from the conduct of lotteries (Note 4)	**11,397**	10,889
Special commissions to non-profit organizations (Note 5)	**497**	411
	11,894	11,300
Net income	**441,131**	428,671

CONSOLIDATED STATEMENT OF CHANGES IN LIQUIDITIES

For the year ended March 31, 1990

(in thousands of dollars)	1990	1989
Operating activities		
Net income	**441,131**	428,671
Item not affecting liquidities		
Depreciation of fixed assets	**8,695**	7,372
	449,826	436,043
Changes in non-liquid assets and liabilities related to operations	**11,485**	16
Liquidities provided by operating activities	**461,311**	436,059
Financing activities		
Dividend	**(477,500)**	(359,500)
Return arising from capital leases	**(659)**	(752)
Liquidities used for financing activities	**(478,159)**	(360,252)
Investment activities		
Acquisition of fixed assets	**(31,654)**	(14,767)
Proceeds from disposal of equipment under capital leases	**—**	221
Liquidities used for investment activities	**(31,654)**	(14,546)
(Decrease) Increase of liquidities	**(48,502)**	61,261
Balance (shortage of liquidities) at beginning of year	**58,527**	(2,734)
Balance at end of year	**10,025**	58,527

Loto-Québec's liquidities include cash and term deposits.

1. Statutes and functions

La Société des loteries et courses du Québec, also designated as Loto-Québec, is a provincial crown corporation all of whose shares are held by the Government of Québec. According to its enabling Act (L.R.Q., c S-13.1), its function is to conduct and manage lottery systems and, if so authorized by the government, to hold races. In addition, and in return for financial considerations, the Société may offer consultation and implementation services in the areas of its competence.

2. Main accounting policies

The consolidated financial statements of Loto-Québec have been prepared by management in accordance with generally accepted accounting principles, with the reasonable limits of their relative importance and within the framework of the following accounting principles.

Consolidation

The consolidated financial statements group the accounts of Loto-Québec with those of Lotim Inc., a wholly-owned subsidiary, as at December 31, 1989. The balance of inter-company transactions from January 1, to March 31 of each year is entered in the consolidated balance sheet under Receivables or Accounts payable, as the case may be.

Fixed assets

Fixed assets are presented at their original cost and, except for works of art, are depreciated according to their estimated useful life, using the following straight-line method rates:

Building	2%
Office Furniture	10%
Equipment	33.3% and 20%
Improvements to rental holdings	Duration of leases
Rolling stock	30%

Income

Gross income from the sale of lottery tickets is recorded as of the date of the draw, with the exception of income originating from instant lotteries which is entered at the time of sale.

Lottery tickets sold as at March 31 for draws subsequent to that date, except for instant lotteries, are treated as deferred income; discounts to retailers on these sales are carried as prepaid expenses.

Prizes paid

In addition to prizes in cash and merchandise, Loto-Québec also awards free tickets. The value ascribed to these prizes is equal to the price of sale and is entered under Sales as Income and under Prizes paid as Expenses.

3. Interest income – net

(in thousands of dollars)	1990	1989
Income from interest on current deposits	1,866	4,269
Interest on bank loans	(1,714)	—
Interest resulting from capital leases	(59)	(132)
	93	4,137

4. Payments to the government of Canada further to its withdrawal from the conduct of lotteries

Under an agreement between the Provincial Government and the Federal Government concerning the latter's withdrawal from the conduct of lotteries, the Provinces annually remit to the Federal Government the sum of 24 million dollars, in 1979 dollars.

The Québec Government's share is payable by Loto-Québec according to an agreement concluded between the Provinces and the regional lottery corporations. Loto-Québec will turn over more than 11 million dollars as its contribution for fiscal 1989-1990.

5. Special commissions to non-profit organizations

Further to a decision by the Société's sole shareholder, a commission equal to the discount allotted to retailers is awarded to non-profit organizations engaged in the selling of lottery tickets through the LOTOMATIQUE subscription system.

6. Receivables

(in thousands of dollars)	1990	1989
Retailers	**2,280**	2,124
Wholesalers	**12,217**	5,724
Interprovincial Lottery Corporation Inc.	**2,592**	6,414
Miscellaneous	**883**	561
	17,972	14,823

7. Fixed assets

	1990			1989
(in thousands of dollars)	Cost	Accumulative depreciation	Net	Net
Land	**3,103**	—	**3,013**	3,103
Building	**24,208**	**2,159**	**22,049**	20,778
Leasehold improvements	**12,083**	**7,186**	**4,897**	6,094
Equipment	**73,826**	**38,767**	**35,059**	12,409
Office furniture and rolling stock	**5,336**	**3,151**	**2,185**	2,088
Works of art	**602**	—	**602**	464
	119,158	**51,263**	**67,895**	44,936

8. Accounts payable and accrued liabilities

(in thousands of dollars)	1990	1989
Suppliers and accrued liabilities*	**32,628**	15,669
Amount owed to Subsidiary – Lotim Inc.	**877**	811
	33,508	16,480

*Including the amount of $36,000.00 (in 1989: $659,000.00) for liabilities resulting from capital leases maturing in 1991.

9. Unclaimed prizes

Unclaimed prizes from the Mini-Loto and Inter Plus are entered under a provision for their subsequent distribution as bonus prizes.

10. Contingencies

Lease

Under a lease agreement expiring in 2003, the Société is committed to paying a minimum of $52,625,820.00 for the rental of premises occupied by its Head Office in a building held in joint tenancy with Immeubles Cadimont Inc.

Rental expenditures for the year ended March 31, 1990 are $4,180,158.00 (in 1989: $3,857,362.00). The consolidated rental expenditures are $2,090,079.00.

The minimum annual rental payment for each of the next five fiscal years is fixed at $4,048,140.00.

On-Line Lottery Network

The Government has authorized Loto-Québec to upgrade its computerized games hardware and to equip itself with an alternate processing facility in the amount of $50,600,000.00, of which $43,210,316.00 have been entered on the books as at March 31, 1990. To date, the Société has concluded agreements for this project totalling $3,219,573.00.

COMPARATIVE SUMMARY OF EARNINGS

The comparative statements of earnings for the past six years attest not only to the continuing growth of the Société but also to the considerable sums it has turned over to the Government of Québec and, through its various Departments, the population of Québec.

CONSOLIDATED EARNINGS

(in thousands of dollars)	**1990**	1989	1988	1987	1986	1985
Sales – Lottery Tickets	**1,214,543**	1,158,170	1,036,491	998,040	883,121	741,102
Cost of Sales						
Prizes paid	**570,125**	542,695	477,784	460,311	409,753	342,086
Discounts to retailers	**62,828**	60,214	54,777	53,047	48,049	40,973
Printing of tickets	**25,234**	21,749	21,338	19,423	18,757	17,454
	658,187	624,658	553,899	532,781	476,559	400,513
Gross Income	**556,356**	533,512	482,592	465,259	406,562	340,589
Operating costs						
Advertising and communication	**24,881**	22,228	19,826	17,650	17,630	16,079
Distribution and sales	**18,889**	20,463	16,807	16,649	16,025	16,759
Data processing	**28,275**	27,461	22,754	23,646	23,102	20,216
Administration	**21,169**	18,274	16,508	17,475	17,802	18,014
Research and development	**1,515**	1,880	1,589	1,209	947	608
Depreciation of fixed assets	**8,695**	7,372	9,919	10,564	10,119	8,256
	103,424	97,678	87,403	87,193	85,625	79,932
Interest income – net	**93**	4,137	2,382	2,831	3,305	2,131
Income before the following items	**453,025**	439,971	397,571	380,897	323,972	262,788
Payment to the Government of Canada further to its withdrawal from the conduct of lotteries	**11,397**	10,889	17,069	19,030	20,797	9,468
Special contribution to event : Rendez-vous 87				1,000		
Special commissions to non-profit organizations	**497**	411	452	492	504	401
	11,894	11,300	17,521	20,522	21,301	9,869
Net Income	**441,131**	428,671	380,050	360,375	302,671	252,919

A Wholly-Owned Subsidiary

After having experienced a year of consolidation in 1988, 500-WEST entered its full capacity phase in 1989. Its rate of occupancy, nearly 100% as at March 31, 1990, enabled the implementation of stricter and financially more advantageous rental policies. However, the rental of commercial office space for purposes other than customer services has remained difficult, which prompted the owners to target certain areas for storage-space.

Thanks to a near-capacity rate of occupancy, the operational profits for the fiscal year reached $5,044,830.00, as compared with $4,196,026.00 (amended) for the preceding fiscal period. Lotim Inc.'s share rose from $2,098,013.00 (amended) to $2,522,415.00, before financing and depreciation.

These earnings have resulted in a considerable appreciation of these assets.

The financial statements of Lotim Inc. for the twelve month period ended December 31, 1989, have been consolidated with those of Loto-Québec.

LOTO-QUÉBEC

For the Fiscal Year April 1989
as at March 31, 1990

Board of Directors

* David Clark
President and Director-General

Roger Chartrand
* Benoit G. Côté, Ing.
* Francine Harel Giasson, Ph.D.
* Socrates Goulakos, c.a.
Marcel Jobin
Donald W. McNaughton

Marguerite Bourgeois, B.C.L.
Secretary

* members of the Audit Committee

Management Committee

This Committee consists of the President, the Vice Presidents and the Director of Research & Development

General Management

Manager, Internal Auditing
Jacques Dubois

Data Auditing
Operational Auditing

First Vice President, Operations

Claude Trudel

Director of Marketing
Robert Ayotte

Product Development
Product Management
Public Information
Draws
Sponsorships
Consumer services

Direector of Sales
Simon Brodeur

Sales Promotion
Sales Technique

Network Manager, Agents
Pierre Valcourt

Network Manager, Retailers
Richard Gagné

Manager, Management Systems
Manon Derome

Data-Processing Centre, Management
Technical Production, Management
Systems Development, Management

Manager, Games Systems
Rosaire Bachand

Control Centre, Games
Telecommunications
Technical Production, Games
Systems Development, Games

Manager, Administration
Andrée Tremblay

Supplies
General Services
Network Financial Control

Vice President, Human Resources

Joanne Drapeau

Personnel Administration
Human Resources Development
Labour Relations
Security

Vice President, Control and Finance

Gilbert Rehayem

Assistant Vice-President
Jean-Marie Dumont

Manager, Security and Quality
Suzanne P. Lebeau

Systematization
Data Security

Comptroller
Gérald Houle

Treasury and Budgets
Accounting & Accounts Payable
Standardization & Control

Vice President, Corporate Affairs

Marguerite Bourgeois

Planning
Legal Department

Director of Public Affairs
Michel Labrosse

Director of Research and Development

Vincent Trudel

New Games
New Modes of Distribution
Sports Wagers

Head-Office

LOTO-QUÉBEC
LOTIM INC
500 Sherbrooke West
Montréal H3A 3G6
(514) 282 8000
Telex: 055 60178
Fax: (514) 873 8999

Operations Centres

MONTREAL EAST
7070 Beaubien East
Anjou H1M 1B2
(514) 873-2603
Fax: (514) 873-6274

MONTREAL WEST
1238 Beaumont
Ville Mont-Royal
H3P 3E5
(514) 735-4133
Fax: (514) 873-6275

QUEBEC
2200 Blvd. Charest West
Sainte-Foy G1N 2G3
(418) 643-8996
Fax: (418) 643-2690

Regional Offices

CHICOUTIMI
345, rue des Saguenéens
Chicoutimi G7H 6K9
(418) 545-4522
Fax: (418) 545-2657

HULL
975 Blvd. Saint-Joseph
Hull J8Z 1W8
(819) 772-3034
Fax: (819) 772-3975

LAVAL
1799 Blvd. St.-Martin West
Laval H7S 1N2
(514) 682-2525
Fax: (514) 687-4818

MONTREAL SOUTH
470 Blvd. Sainte-Foy
Longueuil J4J 1Y2
(514) 651-9282
Fax: (514) 674-0286

RIMOUSKI
92 2e rue West
Rimouski G5L 8B3
(418) 722-3658
Fax: (418) 722-3891

SHERBROOKE
45 Radisson
Sherbrooke J1L 1E2
(819) 820-3161
Fax: (819) 820-3967

TROIS-RIVIÈRES
5000 Blvd. Jean XXIII
Trois-Rivières West G8Z 4L1
(819) 371-6633
Fax: (819) 371-6998

Director of Public Affairs
Michel Labrosse

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IKOÉNON

At that time, the son of the great medecine man, initiated in the secrets of that art, dreamed of discovering an even greater power, a force that would allow him to conquer the elements and dominate all mankind.

Taking leave of his family wigwam one night, he set out on the venture, in search of the wondrous stone described by the shamans.

He crossed the steepest mountains, he descended to the bottom of the sheerest gorges; he scoured the plains and scanned the forests, each night bringing him disillusion. Each morning, however, with hope renewed, he set off again on the quest of the stone, scorched by the sun in summer, frozen by the gales in winter. Thus passed the days, the hours, the seasons, the years. He had discovered everything, all save that wondrous stone.

People everywhere had named him Ikoénon, that is to say "The Searcher". No one any longer knew the name given him by the great medecine man or his age. People said that Waconda, the Manitou of vengeance, to make him atone for his unrestrained covetousness, had doomed him to wander till the end of time, carrying in his heart the daily hope and the nightly despair. And yet he had stopped hoping, waiting, in fact, only to find the path to the eternal happy hunting grounds.

And that's when the dream had come. He saw himself possessor of the wondrous stone, proclaimed Chief of the nations and carried in triumph by his own people.

On awakening, he set off on the path, his heart vibrant with new hope. And people once again saw a very aged man wandering, his eyes aglow with disturbing gleams.

Original etching, part of the Loto-Québec Collection
Artist: *Deborah Chapman*

Inspired by an indian legend, related in Les Pèlerins de la grande Escarboucle, by *Eugène Achard*
Éditions Librairie générale du Canada – Ottawa, 1947

Collection Director and text: *Michel Labrosse*
Technical Coordinator: *Louis Pelletier*

English adaptation by Jerry Williams

The original engraving was edited in 85 prints signed by the artist

Printed in Québec